

**Anita Municipal Utilities
Independent Auditors' Report
Basic Financial Statements
and Other Information
Schedule of Findings**

June 30, 2013

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**Anita Municipal Utilities
Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Terry Oathoudt	Chairman	July 2017
Lee Poeppe	Trustee	July 2015
Delmer Kopp	Trustee	July 2017
Merlin Scarf	Superintendent	Indefinite
Diane Harrison	Secretary/Treasurer	Indefinite

January 14, 2014

Independent Auditors' Report

To the Board of Trustees
Anita Municipal Utilities
Anita, IA

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities and each major fund of Anita Municipal Utilities, a component unit of the City of Anita, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Continued....

January 14, 2014
Independent Auditors' Report

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities and each major fund of Anita Municipal Utilities, a component unit of the City of Anita, as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in Note 1, the financial statement of the Anita Municipal Utilities are intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Anita that is attributable to the transactions of the Utilities. Our opinion is not modified with respect to these matters.

Other Matters

Other Information

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 6 through 8 and 18 through 19 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2014 on our consideration of Anita Municipal Utilities', a component unit of the City of Anita, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Anita Municipal Utilities', a component unit of the City of Anita, internal control over financial reporting and compliance.

Schroer & Associates, PC

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Anita Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follows.

2013 FINANCIAL HIGHLIGHTS

- The Utilities' total receipts increased 2.8%, or approximately \$30,000, from fiscal 2012 to fiscal 2013.
- The Utilities' total disbursements decreased approximately 16.6%, or approximately \$248,000, from fiscal 2012 to fiscal 2013. The decrease is due to the prior year early payoff of electric utility debt.
- The Utilities' total cash basis net position decreased approximately 10%, or \$130,000 from June 30, 2012 to June 30, 2013.

USING THIS ANNUAL REPORT

The annual report consists of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the financial statements and provides an analytical overview of the Utilities' financial activities.

The Cash Basis Statement of Activities and Net Position provides information about the activities of the Utilities as a whole and presents an overview of the Utilities' finances.

The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Position presents more detail on the Anita Municipal Utilities' operations by providing information about the major funds.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements.

Other Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year.

BASIS OF ACCOUNTING

The Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utilities are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the Utilities' finances is, "Is the Utilities as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the Utilities' net position. Over time, increases or decreases in the Utilities' net position may serve as a useful indicator of whether the financial position of the Utilities is improving or deteriorating.

Fund Financial Statements

Proprietary, Enterprise Funds are used to report business type activities. The Utilities maintains two Enterprise Funds to provide separate information for the Water and Electric Funds, considered to be major funds of the Utilities.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash basis net position.

Changes in Cash Basis Net Position		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 283,492	249,547
Electric	787,275	793,346
Operating grants	19,074	-
General receipts:		
Unrestricted interest on investments	18,584	23,818
Other	7,360	19,201
Total receipts	<u>1,115,785</u>	<u>1,085,912</u>
Disbursements:		
Water	298,720	182,078
Electric	947,680	1,312,497
Total disbursements	<u>1,246,400</u>	<u>1,494,575</u>
Change in cash basis net position	(130,615)	(408,663)
Cash basis net position beginning of year	<u>1,302,032</u>	<u>1,710,695</u>
Cash basis net position end of year	<u><u>1,171,417</u></u>	<u><u>1,302,032</u></u>

The Utilities' receipts for the fiscal year were \$1,115,785, compared to \$1,085,912. Disbursements were \$1,246,400 compared to \$1,494,575. The significant decrease in disbursements was due to the early payoff of electric utility debt last year. The cash balance decreased \$130,615 from the prior year.

INDIVIDUAL MAJOR FUND ANALYSIS

As the Anita Municipal Utilities completed the year, the total proprietary funds reported a combined fund balance of \$1,171,417; a decrease of \$130,615 from last year's total of \$1,302,032. The following are the changes in the fund balances from the prior year:

- The Water Fund cash balance decreased \$9,172, due primarily to engineer costs for a new water treatment plant.
- The Electric Fund cash balance decreased \$121,443 due primarily to using cash reserves instead of raising rates.

BUDGETARY HIGHLIGHTS

The Anita Municipal Utilities amended its budget in May 2013 by the City of Anita, which resulted in an increase in disbursements of \$105,005 and no change in receipts.

The disbursements anticipated in the amended budget compared to the actual disbursements were a positive variance of \$43,880.

DEBT ADMINISTRATION

At June 30, 2013 the Anita Municipal Utilities had no revenue debt outstanding.

ECONOMIC FACTORS

The Anita Municipal Utilities assesses its billing rates for electricity on a monthly basis. The billing rate has been broken down into three components: product cost, operation and maintenance, and emergency fund. Product cost is automatically analyzed by the computerized billing system. Operation and maintenance and emergency fund are assessed by the Board of Trustees annually. Based on the results of the component analysis, the energy adjustment rate is recomputed by the billing system to meet current needs. Current economic conditions beyond the control of the Board of Trustees play a significant role in the daily operations of the water plant and distribution services.

These conditions include, but are not limited to:

- The need to constantly maintain facilities, vehicles and machinery.
- The need to comply with federal and state regulations for the production of water and well-head protection, as well as the purchase and production of electricity.
- The fluctuation of the cost of the chemicals and energy used to produce quality water.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Anita Municipal Utilities' finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Anita Municipal Utilities, 828 Main Street, PO Box 426, Anita, Iowa 50020.

Basic Financial Statements

Anita Municipal Utilities
Cash Basis Statement of Activities and Net Position
As of and For the Year Ended June 30, 2013

		Program Receipts		Net (Disbursements)
				Receipts and
				Changes in
				Cash Basis
				Net Position
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Business Type Activities
Functions/Programs:				
Business type activities:				
Water	\$ 298,720	283,492	-	(15,228)
Sewer	947,680	787,275	19,074	(141,331)
Total business type activities	<u>\$ 1,246,400</u>	<u>1,070,767</u>	<u>19,074</u>	<u>(156,559)</u>
General Receipts:				
Grants and contributions not restricted to specific purposes				7,360
Unrestricted interest on investments				<u>18,584</u>
Total general receipts				<u>25,944</u>
Change in cash basis net position				(130,615)
Cash basis net position beginning of year				<u>1,302,032</u>
Cash basis net position end of year				<u>\$ 1,171,417</u>
Cash Basis Net Position				
Unrestricted				<u>\$ 1,171,417</u>

See notes to financial statements

Anita Municipal Utilities
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
As of and For the Year Ended June 30, 2013

	Water	Electric	Total
Operating receipts:			
Charges for service	\$ 283,492	787,275	1,070,767
Grants	-	19,074	19,074
Total operating receipts	<u>283,492</u>	<u>806,349</u>	<u>1,089,841</u>
Operating disbursements:			
Business type activities:			
Plant operation and maintenance	62,132	671,915	734,047
Distribution operation and maintenance	121,915	168,642	290,557
Administration	66,438	107,123	173,561
Total operating disbursements	<u>250,485</u>	<u>947,680</u>	<u>1,198,165</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	33,007	(141,331)	(108,324)
Non-operating receipts (disbursements):			
Interest on investments	-	18,584	18,584
Rent	6,056	1,304	7,360
Capital projects	(48,235)	-	(48,235)
Sewer fees collected for city	-	147,728	147,728
Sewer fees remitted to City	-	(147,728)	(147,728)
Total non-operating receipts (disbursements)	<u>(42,179)</u>	<u>19,888</u>	<u>(22,291)</u>
Net change in cash balances	(9,172)	(121,443)	(130,615)
Cash balances beginning of year	<u>4,447</u>	<u>1,297,585</u>	<u>1,302,032</u>
Cash balances end of year	<u>\$ (4,725)</u>	<u>1,176,142</u>	<u>1,171,417</u>
Cash Basis Fund Balances			
Unrestricted	<u>\$ (4,725)</u>	<u>1,176,142</u>	<u>1,171,417</u>

See notes to financial statements

**Anita Municipal Utilities
Notes to Financial Statements
June 30, 2013**

NOTE 1 Summary of Significant Accounting Policies

Reporting Entity

The Anita Municipal Utilities is a component unit of the City of Anita, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board (GASB). The Utilities is governed by a three-member Board of Trustees appointed by the City Council, which exercises oversight responsibility under this criteria. The Utilities provides water and electric utilities for the residents of the Anita Municipal Utilities and collects sewer fees on behalf of the City of Anita.

Basis of Presentation

Government-wide Financial Statements – The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the Utilities. For the most part, the effect of interfund activity has been removed from this statement. Only business type activities are reported, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the Utilities' nonfiduciary net position. Net position may be reported in the following categories/components:

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding category. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements.

The Utilities reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the water system.

The Electric Fund accounts for the operation and maintenance of the electric system.

**Anita Municipal Utilities
Notes to Financial Statements
June 30, 2013**

NOTE 1 Summary of Significant Accounting Policies - Continued

Measurement Focus and Basis of Accounting

The Anita Municipal Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Utilities is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the Utilities funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the Utilities' policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal and ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013 disbursements did not exceed the amount budgeted.

Cash and Time Deposits

The Utilities pools cash resources of most funds in a combined bank account to facilitate the management of cash. The Utilities makes disbursements and investments from the combined cash balance. Time deposits are stated at cost which approximates market. All interest is credited to the operating fund.

NOTE 2 Cash and Pooled Investments

The Utilities' deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utilities Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trust; and warrants or improvement certificates of a drainage district.

The Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board No. 3, as amended by Statement No. 40.

**Anita Municipal Utilities
Notes to Financial Statements
June 30, 2013**

NOTE 2 Cash and Pooled Investments - Continued

Interest rate risk – The Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

NOTE 3 Pension and Retirement Benefits

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.78% of their annual salary and the Utilities is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contribution to IPERS for the years ended June 30, 2013, 2012, and 2011, were \$17,990, \$15,882, and \$13,423, respectively, equal to the required contributions for each year.

NOTE 4 Other Postemployment Benefits (OPEB)

The Utilities operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 2 active members and 0 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with United Health Care. The Utilities pays a portion of the premium for retirees, which results in an explicit subsidy and an OPEB liability. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

The contribution requirements of plan members are established and may be amended by the Utilities. The Utilities currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Utilities and plan members are \$543 for single coverage and \$608 for family coverage. The same monthly premiums apply to retirees.

**Anita Municipal Utilities
Notes to Financial Statements
June 30, 2013**

NOTE 5 Compensated Absences

Anita Municipal Utilities' employees accumulate a limited amount of earned but unused vacation and sick hours for subsequent use, or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utilities until used or paid. The Utilities' approximate liability for earned vacation and sick leave termination payments payable at June 30, 2013 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 7,800
Sick leave	<u>19,700</u>
	<u>\$ 27,500</u>

Sick leave is payable when used or upon retirement or termination. If paid upon retirement or termination, an employee receives one-half of accumulated sick leave hours paid at the current effective hourly rate for that employee.

This liability has been computed based on rates of pay in effect at June 30, 2013.

NOTE 6 Risk Management

The Utilities is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986, for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital, and, if insufficient, by the subsequent year's member contributions.

The Utilities' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Utilities' annual contributions to the Pool for the year ended June 30, 2013 were \$18,397.

Anita Municipal Utilities
Notes to Financial Statements
June 30, 2013

NOTE 6 Risk Management – Continued

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claim shall be the obligation of the respective individual member. As of June 30, 2013, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its capital contributions; however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Utilities also carries commercial insurance purchased from other insurers for coverage associated with workman's compensation. The Utilities assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 Related Party Transactions

The Utilities had business transactions between the Utilities and Utilities' officials totaling \$10,418 during the year ended June 30, 2013.

NOTE 8 Deficit Balance

The Water Fund had a deficit balance of \$4,725 at June 30, 2013. The deficit balance was a result of engineer costs for a new water treatment plant. The deficit will be eliminated with note proceeds.

NOTE 9 Commitments

At June 30, 2013, the Utilities had an engineer commitment of \$23,265 on a new water treatment plant.

NOTE 10 Subsequent Events

In July 2013, the Utilities approved the issuance of water revenue debt not to exceed \$102,500 to be used for the design of a new water treatment plant.

Other Information

Anita Municipal Utilities
Budgetary Comparison Schedule of Receipts, Disbursements,
and Changes in Balances – Budget and Actual (Cash Basis)
Other Information
Year Ended June 30, 2013

		Less Funds Not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
	Actual			Original	Final	
Receipts						
Use of money and property	\$ 25,944	-	25,944	-	-	25,944
Intergovernmental	19,074	-	19,074	-	-	19,074
Charges for services	1,218,495	147,728	1,070,767	1,185,280	1,185,280	(114,513)
Total receipts	1,263,513	147,728	1,115,785	1,185,280	1,185,280	(69,495)
Disbursements						
Business type activities	1,394,128	147,728	1,246,400	1,185,280	1,290,280	43,880
Deficiency of receipts under disbursements	(130,615)	-	(130,615)	-	(105,000)	(25,615)
Balances beginning of year	1,302,032	12,080	1,289,952	1,289,952	1,289,952	-
Balances end of year	\$ 1,171,417	12,080	1,159,337	1,289,952	1,184,952	(25,615)

See Accompanying Independent Auditors' Report

Anita Municipal Utilities
Notes to Other Information – Budgetary Reporting
June 30, 2013

The Anita Municipal Utilities prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Utilities' disbursements are budgeted in the business type activities function. During the year, one budget amendment increased budgeted disbursements by \$105,000. The budget amendment is reflected in the final budgeted amounts. The budget amendment increased disbursements for debt service.

During the year ended June 30, 2013, disbursements did not exceed the amended amount budgeted.

**Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Prepared in
Accordance with *Government Auditing Standards***



Diane McGrain, CPA
Jim Menard, CPA

January 14, 2014

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Prepared in Accordance with *Government Auditing Standards*

To the Board of Trustees of the
Anita Municipal Utilities

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business type activities and each major fund of Anita Municipal Utilities, a component unit of the City of Anita, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the Utilities' basic financial statements, and have issued our report thereon dated January 14, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Anita Municipal Utilities' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Anita Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of Anita Municipal Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Anita Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings as item I-A-13 to be a material weakness.

Continued...

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-B-13 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Anita Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Anita Municipal Utilities' Responses to Findings

Anita Municipal Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Anita Municipal Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Anita Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schroer & Associate, PC

**Anita Municipal Utilities
Schedule of Findings
Year Ended June 30, 2012**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- I-A-13 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits, bank reconciliation and the posting of the cash receipts to the cash receipts journal and customer accounts are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Utilities should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The Utilities should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- I-B-13 Reconciliation of Utilities' Billings, Collections and Delinquencies – Utilities' billings, collections and delinquent accounts were not reconciled throughout the year. Also, the Utilities' collections were not reconciled to deposits.

Recommendation – Procedures should be established to reconcile the Utilities' billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Board or a Board-designated independent person should review the reconciliations and monitor delinquencies.

Response – Our new utility billing software package provides the means to do a monthly reconciliation and delinquent list. We have since contacted the software technician to resolve this issue. We will better utilize the software reports to reconcile the Utilities' billings, collections and delinquencies.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**Anita Municipal Utilities
Schedule of Findings
Year Ended June 30, 2012**

Part II: Other Findings Related to Required Statutory Reporting:

II-A-13 Certified Budget

The budget certified by the City of Anita includes an amount budgeted for the Anita Municipal Utilities. Disbursements during the year ended June 30, 2013 did not exceed the amended amount budgeted.

II-B-13 Entertainment Expense

We noted no disbursements for parties, banquets or entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General opinion dated April 25, 1979.

II-C-13 Travel Expense

No disbursements of Utilities' money for travel expenses of spouses of Utilities' officials or employees were noted.

II-D-13 Business Transactions –

Comment - Business transactions between the Utilities and Utilities' officials, employees or relatives of Utilities' officials are detailed as follows:

Delmar Kopp, Trustee Owner of Kopp Company	Contracted Services \$ <u>10,418</u>
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In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Trustee appears to represent a conflict of interest since the transactions with the individual exceeded \$2,500 during the fiscal year.

Recommendation – The Utilities should seek legal advice on this matter.

Response – We will do this.

Conclusion – Response accepted.

II-E-13 Bond Coverage

Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

II-F-13 Board Minutes

No transactions were found that we believe should have been approved in the Board minutes but were not.

II-G-13 Deposits and Investments

No instances of non-compliance with the deposit and investment provisions of Chapter 13B and Chapter 13C of the Code of Iowa and the Utilities' investment policy were noted.

**Anita Municipal Utilities
Schedule of Findings
Year Ended June 30, 2012**

Part II: Other Findings Related to Statutory Reporting (continued):

II-H-13 Revenue Notes

There were no revenue notes outstanding at June 30, 2013.

II-I-13 Financial Condition

Comment – The Enterprise – Water Fund had a deficit balance of \$4,725.

Recommendation – The Utilities should monitor the activity in this fund in order to eliminate the deficit.

Response – The deficit was a result of engineer costs for a new water treatment plant and will be eliminated with note proceeds.

Conclusion – Response accepted.

II-J-13 Excess Balances

Comment – The balance in the Enterprise – Electric Fund at June 30, 2013, was in excess of the fund's disbursements during the year.

Recommendation – The Utilities should consider the necessity of maintaining this substantial balance, and where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response – We have been using the cash reserves instead of adjusting rates to cover operating costs.

Conclusion – Response accepted.